

## **STATEMENT OF CONGRESSMAN ROBERT A. UNDERWOOD**

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Submitted to the Commercial Activities Panel of the U.S. General Accounting Office

“A-76: What’s Working, What’s Not” Public Hearing

Lackland Air Force Base, San Antonio, Texas

Wednesday, August 15, 2001

I appreciate the opportunity to comment on the Department of Defense’s (DoD) ongoing efforts to outsource commercial activities, a matter of significance in particular to my constituency, the people of Guam, and more generally to the readiness of our nation’s military. At the outset let me state that the entire manner in which the A-76 process has been handled in Guam has been severely flawed. The process itself has in many respects been counterproductive, resulting in a whole host of problems for both the military and the local community on Guam. Unfortunately, A-76 has created tension between the military and civilian communities, dispersed our island’s skilled workforce, and severely damaged Guam’s economy. Today I share with you our disappointments and difficult experiences with A-76. I offer these observations with the hope that this panel might better recognize the detrimental effects of the process, identify the problems, and in turn help repair the system by recommending needed solutions. Guam, nor any other community for that matter, should never again have to find themselves subject to such a flawed process and forced to endure such painful consequences.

Guam’s A-76 story is as interesting as it is discomfoting to tell. Our experience with this whole ordeal began with the Base Realignment and Closure Commission (BRACC) in 1995. That year the Navy decided it wanted to close down the Public Works Center (PWC), a unit in the Naval Activities Section of Guam. However, the BRACC agreed with Guam’s position, denied the Navy’s closure request, but instead granted permission to realign PWC. Dissatisfied with BRACC’s derailing of their closure plans, the Navy in turn resorted to A-76 to get their way. In doing so, the Navy undermined the trust of those affected by the process and created a tremendous sense of loss. It was understood that the base realignment and closure (BRAC) process was outlined by Congress and by law to make a fair assessment of what could be closed and what could not be closed. The Navy’s callous disregard for the BRACC decision to not close the PWC ripped away any sense of fairness in that process. Their convenient and uncompassionate reliance on A-76 given these circumstances is what caused uneasiness and strain in relations between the military and civilian communities from the very beginning. It was a signal that problems were to come. Realizing this, local leaders on Guam and myself worked collaboratively to devise a strategy to counteract the negative effects of the A-76 process. We have since expressed our constant opposition to A-76 and I have pointed out its irregularities at every step of the way. I continue to monitor the process, challenge the assumptions and when necessary raise awareness of the issue by discussing it on the House floor.

Following the decisions regarding the fate of the PWC, the Chief of Naval Operations in January 1997 announced plans to conduct a comparison study utilizing Guam, a “low impact base,” and Pensacola, Florida, a “high impact base,” as models for the outsourcing of Base Operations Support (BOS) functions. Several months later this comparison study was abandoned but the Navy’s multi-function A-76 competition on Guam remained.

What is particularly disturbing and most troubling about the Navy's early A-76 decisions, is that the people of Guam were used as guinea pigs. Loyal, hardworking civil servants, that is real people with real jobs, families to feed and children to raise were subjected to the Navy's experiment where the outcome of success was uncertain and the potential effects not fully known. Workers were told to compete for their jobs and eventually pitted against one another for survival in the workplace. If past practice is any indication on how future decisions will be made, then achieving significant cost savings and more efficient work processes on Guam remains an unreachable goal. The framework by which the Navy has chosen to conduct the A-76 process and the decisions they have made along the way, all ultimately point to failure. The costs of this failure have been shouldered and paid for by the people of Guam.

For the A-76 process to work on Guam, local small businesses must be included and rewarded. Instead, off-island large contractors with little familiarity with the island, its workforce, or defense operations have been the main beneficiaries. Work that is inherently governmental must be recognized as such and not forced to be performed in a privatized world. Rehired civil servants as contract workers must be paid decent and reasonable wages. Local leaders must be treated with dignity and their input should be welcomed. And most of all the A-76 process should be conducted in an environment of mutual respect. Without these elements any outsourcing effort on Guam is sure to fail and cause unnecessary and unjustifiable damage to our island's quality of life and economic future.

To begin with, Guam was carelessly selected for A-76 studies. Guam's unique characteristics and importance to the nation's strategic interests should make it an unattractive location to experiment with A-76. Our island serves as the most-forward deployed U.S. military installation in the Pacific Theater. Increased and renewed emphasis on U.S. military posture in the Asia-Pacific Region remind us of Guam's importance to the nation's military readiness. But despite these facts, Guam was subjected to A-76.

Along the way I have had to fight many troubling decisions on the part of the Navy. For instance, they had initially planned on permitting the utilization of foreign workers, or H-2 visa workers, to keep costs down, thereby competing more unfairly with the existing civil service. Upon learning of this unfair tactic, I introduced an amendment to the DoD reauthorization bill prohibiting the use of H-2 workers on any BOS contract that would be contracted out in Guam.

In the spring of 1997, the Navy announced that they were going to look towards the bundling of all kinds of functions in this particular situation and offer them up to a private contractor or to the public sector. The Navy justified using a BOS contract, taking such diverse things as providing day care to loading ordnance to house maintenance, and bundling them all in one contract because they said that this was the way that they would get an economy of scale. They planned to open this package for competition between large "Fortune 500" firms with the idea that such a firm would be a stable and financially sound entity which could pay decent salaries. Subsequently, I called in the U.S. Small Business Administration (SBA) to fight to unbundle the contract and advocate for small business set asides. A modest \$65 million set aside

package was included along with contract incentives to use small business as subcontractors. My office has exerted considerable effort to ensure adherence to this set aside.

There were problems in drafting the Performance Work Statement (PWS) as the Navy repeatedly understated the level of work within the various functions. One such example is the ordnance shop. The Navy in designing the Request for Proposal (RFP) had inaccurately calculated the work-load data. What followed was a renegotiation between the Navy and Raytheon to more honestly reflect the scope of the work. The firm hired to draft the in-house most efficient organization (MEO) management plan, KPMG Peat Marwick, was dismissed because its analysis and data was not reflective of reality.

The BOS contract was designed to bid out a significant amount of money to one single contractor. In the end, it was Raytheon that won this contract. The Navy attempted to sell this to the people of Guam all along, claiming repeatedly that though the likely winner would be an off-island contractor, the Guam businesses and workers could count on subcontracting opportunities.

Raytheon Technical Services won the right to compete against the Navy's in-house MEO. In the final stage of the public/private competition, the Navy in-house MEO inexplicably bid \$607 million while Raytheon bid \$321 million. This glaring bid disparity is testament to the Navy's inadequate effort to assist the local workforce and the inherent weakness in the A-76 process. This disparity was itself testimony to a process in which information was inadequately shared.

Raytheon was awarded the contract. As a result approximately 800 federal civil servants were laid off. To exacerbate the situation they began to hire former civil service employees for positions with a base pay significantly lower than before and for only 32 hours a week. Therefore, I contend that the right of first refusal is misleading because the former civil servants were expecting to be offered at least a full time job of 40 hours a week. Raytheon declared and the Navy accepted that 32-hours a week is a full time job. Moreover these positions significantly reduced benefits.

Given these disappointments and in an effort to offset the negative ramifications, I engaged the U.S. Department of Labor to perform a new wage determination. Fortunately, I was able to secure a wage scale revision. I was also able to amend U.S. law to require that contractors hire local residents. But we should not have to retroactively correct the ills brought about by a flawed process.

Overall we have made some progress at rectifying the problems. There are provisions under current U.S. law that the DoD perform an economic impact assessment on the community faced with downsizing from outsourcing. Unfortunately, the tragedy of Guam's case is compounded by the fact that this law was not passed until after the Navy had decided to move forward with Guam's outsourcing study. Regardless, the study requirement remains inadequate as it asks for little more than a review of surmised local economic impact. If DoD had been

required to perform a thorough impact study for Guam, it would have no doubt revealed that Guam was a poor and inappropriate model for the DoD to conduct their comparison study. Given Guam's size, the job loss from A-76 was of unique and dramatic proportions. The consequence has been an erosion of the middle class in Guam, which helps sustain the larger economy of Guam through good salaries, mortgage purchasing, and consumer spending. A-76 has had a dramatic impact and has undermined the economic health of our island.

Let me finally state that if one were to be required to prepare a balance sheet on the A-76 process as it has been implemented in Guam, the following conclusions would be reached:

1. The federal government did not save nearly the money it thought it would.
2. Privatizing and outsourcing jobs will not benefit the local community without constant effort on the part of local government and business leaders. The federal government has not been sufficiently committed to this effort.
3. The federal government's responsibility to provide quality work in a secure, forward base environment has been eroded.
4. Contractual opportunities for local businesses are not being facilitated by the Department of Defense. The bundling of contracts remains a key issue.

I again request that the GAO conduct an in-depth study of the process as it has developed in Guam. By conducting a Guam-specific study, all of the elements of a process gone wrong can be understood by all. Outsourcing jobs in Guam does not make economic or strategic sense. Only an independent review can assess the real impact of A-76 process as it has been implemented in Guam.

I am opposed to another round of base closures. However, if there is to be another, there must be legislative safeguards to protect the decisions made by a new commission. The most disheartening part of the A-76 process for PWC jobs in Guam is that everyone thought that the community and the civil servants had won. The BRACC decided to keep the PWC going and not allow the Navy to realign or close the activities of the PWC. But the Navy went ahead anyway and used the A-76 to do what the BRACC kept them from doing. Legislative provisions in any new BRACC law must be enacted to disallow the services from circumventing the decisions again.

Thank you for the opportunity to submit this testimony. I will continue to monitor this particular GAO study and look forward to working on legislation based on your findings.